



**FROM THE DESK OF**

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**U.S. RAILROAD RETIREMENT BOARD**

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### **RRB Financial Reports**

The Railroad Retirement Board (RRB) is required by law to submit annual financial reports and triennial actuarial valuations to Congress on the financial condition of the railroad retirement system, as well as annual financial reports on the railroad unemployment insurance system. These reports must also include recommendations for any financing changes which may be advisable in order to ensure the solvency of the systems. In June, the RRB submitted its 23<sup>rd</sup> Actuarial Valuation of the railroad retirement system's assets and liabilities and its financial report on the rail unemployment insurance system.

The following questions and answers summarize the findings of these reports.

**1. What were the assets of the railroad retirement and railroad unemployment insurance systems last year?**

As of September 30, 2005, total railroad retirement system assets, comprising assets managed by the National Railroad Retirement Investment Trust and the railroad retirement system accounts at the Treasury, equaled approximately \$29 billion. The Trust was established by the Railroad Retirement and Survivors' Improvement Act of 2001 to manage and invest railroad retirement assets. The cash balance of the railroad unemployment insurance system was \$102.6 million at the end of fiscal year 2005.

**2. What was the conclusion of the 23rd triennial actuarial valuation of the financial condition of the railroad retirement system?**

The conclusion was that, barring a sudden, unanticipated, large drop in railroad employment or substantial investment losses, the railroad system will experience no cash-flow problems during the next 36 years. The long-term stability of the system, however, is not assured. Under the current financing structure, actual levels of railroad employment and investment return over the coming years will determine whether additional corrective action is necessary.

**3. What methods were used in forecasting the financial condition of the railroad retirement system?**

The valuation projected the various components of income and outgo of the railroad retirement system under three employment assumptions, intended to provide an optimistic, moderate and pessimistic outlook, respectively, for the 75 calendar years 2005-2079. The projections of these components were combined and the investment income calculated to produce the projected balances in the railroad retirement accounts at the end of each projection year.

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Projecting income and outgo under optimistic, moderate and pessimistic employment assumptions, the valuation indicated no cash-flow problems occur throughout the 75-year projection period under the optimistic and moderate assumptions. Cash-flow problems do occur under the pessimistic assumption. However, even under that assumption the cash-flow problems do not occur until 2042.

**4. How do the results of the 23<sup>rd</sup> Actuarial Valuation compare with those of previous years, including the 22<sup>nd</sup> Valuation?**

It compares favorably with past reports. The 22<sup>nd</sup> Valuation, issued in 2003, addressed railroad retirement financing for the 75 calendar years 2002-2076 and concluded that cash-flow problems arose only under the pessimistic assumption, and then not until 2022.

The 2004 financial report addressed the 25 calendar years 2004-2028 and indicated cash-flow problems arose only under the pessimistic assumption, and not until 2026.

The 2005 report, covering the 25 calendar years 2005-2029, indicated no cash-flow problems throughout the 25-year projection period under any of the three assumptions.

**5. Did the 23<sup>rd</sup> valuation of the railroad retirement system recommend any railroad retirement payroll tax rate changes?**

The report did not recommend any change in the rate of tax imposed by current law on employers and employees. The absence of projected cash-flow problems for at least 36 years under each employment assumption indicated that an immediate increase in the tax rate schedule is not required.

**6. What were the findings of the 2006 report on the financial condition of the railroad unemployment insurance system?**

The RRB's 2006 railroad unemployment insurance financial report was also generally favorable. Even as maximum benefit rates increase 46 percent (from \$56 to \$82) from 2005 to 2016, experience-based contribution rates are expected to keep the unemployment insurance system solvent, except for small, short-term cash-flow problems in 2008 and 2009 under the most pessimistic assumption. However, projections show a quick repayment of any loans.

Unemployment levels are the single most significant factor affecting the financial status of the railroad unemployment insurance system. However, the system's experience-rating provisions, which adjust contribution rates for changing benefit levels, and its surcharge trigger for maintaining a minimum balance help to ensure financial stability in the advent of adverse economic conditions.

Under experience-rating provisions, each employer's contribution rate is determined by the RRB on the basis of benefit payments made to the railroad's employees. The report predicted that, even under the most pessimistic assumption, the average employer contribution rate remains well below the maximum throughout the projection period.

The report also predicted that the 1.5 percent surcharge in effect in calendar year 2006 will likely be followed by no surcharge for calendar year 2007 and a 1.5 percent surcharge for calendar year 2008. A 2.5 percent surcharge is expected for calendar year 2009.

**7. What methods were used to evaluate the financial condition of the railroad unemployment insurance system?**

The economic and employment assumptions used in the unemployment insurance report corresponded to those used in the report on the retirement system. Projections were made for various components of income and outgo under each of three employment assumptions, but for the period 2006-2016, rather than a 75-year period.

**8. Did the 2006 report on the railroad unemployment insurance system recommend any financing changes to the system?**

No financing changes were recommended at this time by the report.

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*The RRB's 2006 financial reports on the retirement and unemployment insurance systems are available in their entirety on the agency's Web site at [www.rrb.gov](http://www.rrb.gov). Information on the National Railroad Retirement Investment Trust, including its quarterly and annual reports, is also available on the site.*